

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Tustin	County Osceola
Fiscal Year End February 29, 2008	Opinion Date April 30, 2008	Date Audit Report Submitted to State August 4, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

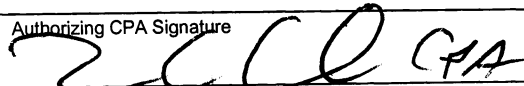
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 Letter; SAS 114 Letter	
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number (231) 775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
Zip 49601		License Number 1101023146	
Authorizing CPA Signature 		Printed Name Michael D. Cool, C.P.A.	

**VILLAGE OF TUSTIN, MICHIGAN**

**FEBRUARY 29, 2008**

*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

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VILLAGE OF TUSTIN, MICHIGAN

FEBRUARY 29, 2008

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# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

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April 30, 2008

### INDEPENDENT AUDITORS' REPORT

To the Village Council  
Village of Tustin, Michigan

We have audited the accompanying basic financial statements of the governmental activities and each major fund of the Village of Tustin, Michigan as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Tustin, Michigan as of February 29, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 18 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Tustin, Michigan's basic financial statements. The other supplementary information is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

VILLAGE OF TUSTIN, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 29, 2008

**Management's Discussion and Analysis**

The management of the Village of Tustin, Michigan ("the Village") offers this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 29, 2008, for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Village's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

**Financial Highlights**

**Government-Wide**

- ❖ The assets of the Village exceeded its liabilities at the close of this fiscal year by \$429,488 (shown as *Net Assets*), representing a decrease of (\$7,298) over the previous fiscal year.

**Fund Level Financial Highlights**

- ❖ As of February 29, 2008, the governmental funds of the Village of Tustin reported combined ending fund balances of \$49,024, of which \$48,015 is unreserved.

**Long-Term Debt**

- ❖ The Village of Tustin's total debt decreased by (\$4,373) during the fiscal year.

**Overview of the Financial Statements**

The Village of Tustin's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements** This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide a broad overview of the Village's financial position. The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the Village as a whole, and provide measurements of long-term trends. They are presented using a method of accounting that is similar to a private-sector business.

The *Statement of Net Assets* (Pages 1-2) presents information on all of the Village's assets and liabilities, the difference between the two being reported as the Net Assets of the Village. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the Village is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

VILLAGE OF TUSTIN, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 29, 2008

The *Statement of Activities* (Page 3) gives the information on the revenues and expenses causing the underlying change in the government's net assets during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Both of these statements distinguish functions of the Village that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the Village include legislative, general government, public works, other functions and debt service.

### **Focus on Funds**

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus has shifted, however, to Major Funds, rather than the previous focus on fund types. The Village's major Governmental Funds include the General Fund, Major Street Fund, and Local Street Fund.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The Village of Tustin uses fund accounting to ensure compliance with finance-related legal requirements.

***Governmental Funds*** Many of the Village's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual basis of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the governmental fund statements on the Statement of Revenues, Expenditures and Changes in Fund Balance as an expenditure. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the Village include the General Fund as well as the Special Revenue funds.

### **Notes to the Financial Statements**

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements. The notes can be found beginning on Page 8 of this report.

VILLAGE OF TUSTIN, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 29, 2008

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Village's financial position over time. The Net Assets of the Village are \$429,488 at February 29, 2008, meaning that the Village's assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

*Village of Tustin*  
*Net Assets*  
*As of February 29, 2008*

	<b>Governmental Activities</b>
Current Assets	\$ 53,160
Capital Assets, Net of Accumulated Depreciation	403,518
<b>Total Assets</b>	<b>456,678</b>
Current Liabilities	16,202
Non-Current Liabilities	10,988
<b>Total Liabilities</b>	<b>27,190</b>
Net Assets	
Invested in Capital Assets, Net of Related Debt	380,464
Unrestricted	49,024
<b>Total Net Assets</b>	<b>\$ 429,488</b>

The most significant portion of the Village's Net Assets is the investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others). The Village has \$49,024 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Village policies regarding their use.

The total net assets of the Village decreased (\$7,298) in this fiscal year.

The following table illustrates and summarizes the results of the changes in the Net Assets for the Village. The condensed information was derived from the Government-wide Statement of Activities.



VILLAGE OF TUSTIN, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 29, 2008

*Village of Tustin*  
*Change in Net Assets*  
*For the Fiscal Year Ended February 29, 2008*

	<b><u>Governmental Activities</u></b>
<b><u>Revenues</u></b>	
<b>Program Revenues</b>	
Operating Grants and Contributions	\$ 28,067
<b>General Revenues</b>	
Taxes	27,738
State Grants	23,895
Unrestricted Investment Earnings	19,643
Other	10,339
<b>Total Revenues</b>	<u>109,682</u>
<b><u>Expenses</u></b>	
Legislative	9,120
General Government	31,628
Public Works	65,030
Other Functions	9,186
Interest on Long Term Debt	2,016
<b>Total Expenses</b>	<u>116,980</u>
Increase (Decrease) in Net Assets	(7,298)
Beginning Net Assets	436,786
Ending Net Assets	<u>\$ 429,488</u>

**Governmental Activities**

The most significant portion of the revenue for all governmental activities of the Village of Tustin comes from Operating Grants (25.59%).

Operating grants represent revenue received from the State of Michigan for preservation of streets within the Village.

The Village's governmental activities expenses are dominated by the Public Works expenses that represent 55.59% of total expenses. The Village spent \$65,030 in FY2008 on Public Works. Expenses in the Major Street Fund (\$48,995) and Local Street Fund (\$10,302) represent a large

VILLAGE OF TUSTIN, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 29, 2008

portion of the Public Works expenditures. General Government Administrative represented the next largest expense at \$31,628 or 27.04% of total expenses within the governmental activities.

**Financial Analysis of the Government's Funds**

***Governmental Activities*** At the completion of the Village's fiscal year ended February 29, 2008, its governmental funds reported fund balances of \$49,024. Of this amount, \$48,015, or 97.94% is unreserved. The remaining \$1,009 of fund balance of the governmental funds is reserved for specific purposes and is therefore not available for new appropriation.

**General Fund** – The General Fund is the main operating fund of the Village. The General Fund increased its fund balance in this fiscal year by \$14,332, bringing the balance to \$42,946.

**Major Street Fund** – The fund balance of the Major Street Fund ended the year at \$2,454. This was a decrease of (\$7,655) from the previous year.

**Local Street Fund** – The fund balance of this fund is at \$3,624, a decrease of (\$3,967), during this fiscal year.

**Capital Asset and Debt Administration**

**Capital Assets.** The Village's investment in capital assets for the governmental activities as of February 29, 2008 amounted to \$403,518 (net of accumulated depreciation). Capital assets of the Village include any items purchased that cost in excess of \$1,000 and have an expected useful life of over one year. The Village has invested in a broad range of capital assets, as detailed below:

<i>Village of Tustin</i> <i>Capital Assets as of February 29, 2008</i>	
	<b>Governmental Activities</b>
Buildings	\$ 119,950
Land	1
Land Improvements	7,829
Equipment	74,028
Streets	332,108
Sidewalks	75,030
<b>Subtotal</b>	<b>608,946</b>
Accumulated Depreciation	(205,428)
<b>Net Capital Assets</b>	<b>\$ 403,518</b>

VILLAGE OF TUSTIN, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 29, 2008

Major capital asset events during FY2008 included the following:

Traded in a lawn tractor on a new John Deere lawn tractor with accessories at a net cost to the Village of \$1,651.

**Long-Term Debt.** As of February 29, 2008, the Village had total debt outstanding of \$23,054.

The Village's total debt decreased by \$4,373 during the current fiscal year.

Additional information on the Village's long-term debt can be found in Note III, F on pages 16-17 of this report.

**Economic Condition and Outlook**

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues.

These factors were considered in preparing the Village's budgets for the 2008-09 fiscal year.

**Contacting the Village's Finance Department**

This financial report is designed to provide the wide variety of users of this document with a general overview of the Village's finances and demonstrate the Village's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Village of Tustin, 310 Neilson Street, P.O. Box 227, Tustin, MI 49688.

VILLAGE OF TUSTIN, MICHIGAN

STATEMENT OF NET ASSETS  
FEBRUARY 29, 2008

	<u>ASSETS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
<u>CURRENT ASSETS</u>		
Cash		\$ 38,829
Receivables		
Taxes		4,793
Due from Other Governments		<u>9,538</u>
Total Current Assets		<u>53,160</u>
<u>CAPITAL ASSETS</u>		
Buildings		119,950
Land		1
Land Improvements		7,829
Equipment		74,028
Streets		332,108
Sidewalks		<u>75,030</u>
		608,946
Less Accumulated Depreciation		<u>205,428</u>
Net Capital Assets		<u>403,518</u>
TOTAL ASSETS		<u>\$ 456,678</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF TUSTIN, MICHIGAN

STATEMENT OF NET ASSETS  
FEBRUARY 29, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable	\$          4,136
Current Portion of Non Current Liabilities	<u>12,066</u>
Total Current Liabilities	<u>16,202</u>
<u>Non Current Liabilities</u>	
Equipment Contract Payable	23,054
Less Current Portion of Non Current Liabilities	<u>(12,066)</u>
Total Non Current Liabilities	<u>10,988</u>
Total Liabilities	<u>27,190</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	380,464
Unrestricted	<u>49,024</u>
TOTAL NET ASSETS	<u>429,488</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$          456,678</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF TUSTIN, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED FEBRUARY 29, 2008

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS TOTALS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 9,120	\$ 0	\$ 0	\$ 0	\$ (9,120)
General Government	31,628	0	0	0	(31,628)
Public Works	65,030	0	28,067	0	(36,963)
Other Functions	9,186	0	0	0	(9,186)
Interest in Long Term Debt	2,016	0	0	0	(2,016)
Total Governmental Activities	\$ 116,980	\$ 0	\$ 28,067	\$ 0	\$ (88,913)
<u>GENERAL REVENUES</u>					
Taxes					\$ 27,738
State Grants					23,895
Unrestricted Investment Earnings					19,643
Other					10,339
Total General Revenues					81,615
Change in Net Assets					(7,298)
<u>NET ASSETS</u> - Beginning of Year					436,786
<u>NET ASSETS</u> - End of Year					\$ 429,488

The accompanying notes are an integral part of the financial statements.

VILLAGE OF TUSTIN, MICHIGAN  
GOVERNMENTAL FUNDS

BALANCE SHEET  
FEBRUARY 29, 2008

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TOTALS
<u>ASSETS</u>				
Cash	\$ 34,972	\$ 272	\$ 3,585	\$ 38,829
Receivables				
Taxes	4,793	0	0	4,793
Due from Other Funds	3,105	0	0	3,105
Due from Other Governments	4,212	4,200	1,126	9,538
TOTAL ASSETS	<u>\$ 47,082</u>	<u>\$ 4,472</u>	<u>\$ 4,711</u>	<u>\$ 56,265</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 4,136	\$ 0	\$ 0	\$ 4,136
Due to Other Funds	0	2,018	1,087	3,105
Total Liabilities	<u>4,136</u>	<u>2,018</u>	<u>1,087</u>	<u>7,241</u>
<u>FUND BALANCE</u>				
Reserved:				
Telecommunications Right of Way				
Maintenance	1,009	0	0	1,009
Unreserved:				
Designated for:				
Street Improvements	0	2,454	3,624	6,078
Undesignated	41,937	0	0	41,937
Total Fund Balance	<u>42,946</u>	<u>2,454</u>	<u>3,624</u>	<u>49,024</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 47,082</u>	<u>\$ 4,472</u>	<u>\$ 4,711</u>	<u>\$ 56,265</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF TUSTIN, MICHIGAN  
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
FEBRUARY 29, 2008

Total Fund Balances for Governmental Funds	\$	49,024
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Amounts Reported for Governmental Activities in the  
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Buildings	\$	119,950	
Land		1	
Land Improvements		7,829	
Equipment		74,028	
Streets		332,108	
Sidewalks		75,030	
Accumulated Depreciation		<u>(205,428)</u>	403,518

Long term liabilities are not due and payable in the current period  
and therefore are not reported in the funds

Equipment Contract Payable		<u>(23,054)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>429,488</u></u>
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The accompanying notes are an integral part of the financial statements.



VILLAGE OF TUSTIN, MICHIGAN  
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED FEBRUARY 29, 2008

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TOTALS
<u>REVENUES</u>				
Taxes	\$ 27,738	\$ 0	\$ 0	\$ 27,738
State Grants	25,104	20,589	6,269	51,962
Interest and Rents	19,506	71	66	19,643
Other Revenues	14,339	0	0	14,339
Total Revenues	86,687	20,660	6,335	113,682
<u>EXPENDITURES</u>				
Legislative	9,120	0	0	9,120
General Government	29,390	0	0	29,390
Public Works	18,659	27,926	10,302	56,887
Other Functions	9,186	0	0	9,186
Debt Service	6,000	21,069	0	27,069
Total Expenditures	72,355	48,995	10,302	131,652
Excess (Deficiency) of Revenues Over Expenditures	14,332	(28,335)	(3,967)	(17,970)
<u>OTHER FINANCING SOURCES (USES)</u>				
Loan Proceeds	0	20,680	0	20,680
Net Change in Fund Balance	14,332	(7,655)	(3,967)	2,710
<u>FUND BALANCES</u> - Beginning of Year	28,614	10,109	7,591	46,314
<u>FUND BALANCES</u> - End of Year	\$ 42,946	\$ 2,454	\$ 3,624	\$ 49,024

The accompanying notes are an integral part of the financial statements.

VILLAGE OF TUSTIN, MICHIGAN  
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED FEBRUARY 29, 2008

Net Change in Fund Balance - Total Governmental Funds	\$ 2,710
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation in the statement of activities.	
Depreciation Expense	(16,016)
Capital Outlay	5,651
In the statement of activities, only the gain or loss on the sale of fixed assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. The change in net assets differs from the change in fund balances by the cost of the fixed assets sold net of accumulated depreciation.	
	(4,016)
Loan proceeds provide current financial resources to governmental funds, but not in the statement of activities (where they are a reduction of assets)	
	(20,680)
Repayments of principal on long-term debt are an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	
Note Payable	<u>25,053</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (7,298)</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2008

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Village of Tustin, Michigan, is a general law village incorporated under the General Village Act of 1895. As required by generally accepted accounting principles, these financial statements present all activities of the Village. Entities for which the Village is considered to be financially accountable are called component units. The Village has no component units.

**B. Government-wide and Fund Financial Statements**

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Village as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

VILLAGE OF TUSTIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2008

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Village are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The Village of Tustin reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares.

The *Local Street Fund* receives all local street money paid to the Village by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2008

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Village has authorized the Village Treasurer to invest in bank savings accounts, bank certificates of deposit, securities of the U.S. Government, and repurchase agreements from banks. The State also permits local units of government to invest funds in commercial paper (unsecured notes of businesses and corporations). Such obligations must be rated in one of the three highest classifications by two of the national rating services in order to qualify for local government investment. Other statutory limits are that commercial obligations may not extend for more than 270 days, and not more than one half of the total investments may be invested in commercial paper.

***2. Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of July 1. Village taxes are levied January 1, become a lien on July 1, and become delinquent after September 14. Village property tax revenues are recognized when they become both measurable and available for use to finance Village operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2007 taxable valuation of the Village of Tustin totaled \$2,748,726, on which ad valorem taxes levied consisted of 10.000 mills for the Village of Tustin operating purposes.

***3. Inventories and Prepaid Items***

Inventories are not significant and are expensed when acquired.

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2008

**4. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Infrastructure	50
Land Improvements	20
Equipment	10-20
Vehicles	10
Computers and Copiers	5

**5. Long-term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2008

**6. Fund Balance**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**7. Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on March 12, 2007, or as amended by the Village Council from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Village Council exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**B. Funds with Expenditures in Excess of Appropriations were as follows:**

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
Major Street Fund	\$ 29,287	\$	48,995
Local Street Fund	7,368		10,302

These overages were funded by available fund balance and greater-than anticipated revenues.

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2008

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Village's deposits are on deposit with Lake Osceola State Bank in Baldwin, MI.

*Investment rate risk.* The Village will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Village's cash requirement.

*Foreign currency risk.* The Village is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Village will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Village's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Village will do business in accordance with the Village's investment policy.

*Concentration of credit risk.* The Village will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of February 29, 2008, none of the government's bank balance of \$38,917 was exposed to custodial credit risk because it was insured and collateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village's investments are categorized to give an indication of the level of risk assumed by the Village at year end. Category 1 includes investments that are insured or registered, or securities held by the Village or the Village's agent in the Village's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Village's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Village's name. At year end, the Village held no investments.



VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2008

**B. Receivables**

Receivables as of year end for the government's individual major funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General	Major Street	Local Street	Total
Receivables				
Taxes	\$ 4,793	\$ 0	\$ 0	\$ 4,793
Intergovernmental	4,212	4,200	1,126	9,538
Total	<u>\$ 9,005</u>	<u>\$ 4,200</u>	<u>\$ 1,126</u>	<u>\$ 14,331</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

**C. Capital Assets**

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1</u>
Capital assets, being depreciated				
Buildings	119,950	0	0	119,950
Land Improvements	7,829	0	0	7,829
Equipment	72,839	5,651	(4,462)	74,028
Streets	332,108	0	0	332,108
Sidewalks	<u>75,030</u>	<u>0</u>	<u>0</u>	<u>75,030</u>
Total capital assets, being depreciated	<u>607,756</u>	<u>5,651</u>	<u>(4,462)</u>	<u>608,945</u>

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2008

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings	32,923	2,159	0	35,082
Land Improvements	1,214	391	0	1,605
Equipment	33,003	5,323	(446)	37,880
Streets	111,923	6,642	0	118,565
Sidewalks	10,795	1,501	0	12,296
Total accumulated depreciation	189,858	16,016	(446)	205,428
Total capital assets, being depreciated, net	417,898	(10,365)	(4,016)	403,517
Governmental activities capital assets, net	\$ 417,899	\$ (10,365)	\$ (4,016)	\$ 403,518

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 7,873
Public Works	8,143
Total	<u>\$ 16,016</u>

Construction Commitments:

The Village had no outstanding construction commitments as of February 29, 2008.

**D. Interfund Receivables, Payables and Transfers**

Individual fund interfund receivable and payable balances at February 29, 2008, were:

<u>Fund</u>	INTERFUND RECEIVABLES DUE FROM'S	INTERFUND PAYABLES DUE TO'S
Primary Government Only Due From/To Other Funds:		
General Fund		
Major Streets	\$ 2,018	\$ 0
Local Streets	1,087	0
Major Streets		
General Fund	0	2,018
Local Streets		
General Fund	0	1,087
Total Primary Government	<u>\$ 3,105</u>	<u>\$ 3,105</u>

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2008

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

There were no interfund transfers for the year ended February 29, 2008.

Transfers are used (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**F. Long-Term Debt**

The following is a summary of debt transactions of the Village of Tustin for the year ended February 29, 2008:

Governmental Activities:

	<u>OTHER DEBT</u>
Debt Payable at March 1, 2007	\$ 27,427
Debt Retired	(25,053)
New Debt Issued	<u>20,680</u>
Debt Payable at February 29, 2008	<u>\$ 23,054</u>
Due Within One Year	<u>\$ 12,066</u>

Debt payable at February 29, 2008 is comprised of the following individual issues:

Other Debt

Street Repair

\$20,680 loan payable to Lake Osceola State Bank for street repairs due in quarterly installments of \$2,225 at 7.375% interest.

\$ 17,249

Equipment Contract

\$18,450 contract payable to John Deere Credit for purchase of tractor, due in monthly installments of \$374 at 7.9% interest.

5,805

\$ 23,054

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2008

The annual requirements to amortize all debt outstanding for the governmental activities as of February 29, 2008, are as follows:

	Principal	Interest	Total
2009	\$ 12,066	\$ 1,328	\$ 13,394
2010	10,988	491	11,479
Total	<u>\$ 23,054</u>	<u>\$ 1,819</u>	<u>\$ 24,873</u>

**G. Fund Balance Designations**

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has designated unreserved portions of certain fund balances/retained earnings in various funds for intended future uses. These designations are detailed in the following schedule:

FUND BALANCE/NET ASSETS

Reserved

General Fund

Telecommunications Right of Way Maintenance \$ 1,009

Unreserved-Designated

Special Revenue Funds

Major Street Fund

Major Streets 2,454

Local Street Fund

Local Streets 3,624

TOTAL FUND BALANCE RESERVES/DESIGNATIONS

\$ 7,087

**IV. OTHER INFORMATION**

**A. Risk Management**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Village carries commercial insurance to cover these risks of loss.

In addition, the Village carries commercial insurance to cover property and casualty, crime, general liability, errors and omissions, and fidelity bonds.

**B. Street Repair Loan**

Per State of Michigan statute municipalities may not directly borrow funds from a financial institution for the purposes of street repair or construction. The municipality must obtain prior approval from the Michigan Department of Treasury before issuing any debt for the purpose of street repairs or construction.

VILLAGE OF TUSTIN, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
YEAR ENDED FEBRUARY 29, 2008

	GENERAL FUND			MAJOR STREET FUND			LOCAL STREET FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<b><u>REVENUES</u></b>									
Taxes	\$ 26,000	\$ 26,000	\$ 27,738	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
State Grants	24,000	24,000	25,104	20,000	20,000	20,589	6,500	6,500	6,269
Interest and Rents	15,630	15,630	19,506	15	15	71	10	10	66
Other Revenues	7,500	7,500	14,339	0	0	0	0	0	0
Total Revenues	73,130	73,130	86,687	20,015	20,015	20,660	6,510	6,510	6,335
<b><u>EXPENDITURES</u></b>									
Legislative									
Village Council	11,300	12,300	9,120	0	0	0	0	0	0
General Government									
Village President	1,300	1,300	1,200	0	0	0	0	0	0
Clerk	5,500	5,500	4,973	0	0	0	0	0	0
Treasurer	6,600	7,500	5,572	0	0	0	0	0	0
Building and Grounds	22,775	24,050	17,645	0	0	0	0	0	0
Public Works									
Highways, Streets and Bridges	0	0	0	19,332	19,332	27,926	7,368	7,368	10,302
Equipment	10,000	13,000	9,592	0	0	0	0	0	0
Sidewalks	500	500	0	0	0	0	0	0	0
Signs	500	700	838	0	0	0	0	0	0
Street Lighting	8,600	8,600	8,229	0	0	0	0	0	0
Other Functions	24,165	24,165	9,186	0	0	0	0	0	0
Debt Service									
Principal	0	0	5,367	9,955	9,955	19,766	0	0	0
Interest	0	0	633	0	0	1,303	0	0	0
Total Expenditures	91,240	97,615	72,355	29,287	29,287	48,995	7,368	7,368	10,302
Excess (Deficiency) of Revenues Over Expenditures	(18,110)	(24,485)	14,332	(9,272)	(9,272)	(28,335)	(858)	(858)	(3,967)
<b><u>OTHER FINANCING SOURCES (USES)</u></b>									
Loan Proceeds	0	0	0	0	0	20,680	0	0	0
Net Change in Fund Balance	(18,110)	(24,485)	14,332	(9,272)	(9,272)	(7,655)	(858)	(858)	(3,967)
<b><u>FUND BALANCE</u></b> - Beginning of Year	28,968	28,968	28,614	9,429	9,429	10,109	8,041	8,041	7,591
<b><u>FUND BALANCE</u></b> - End of Year	\$ 10,858	\$ 4,483	\$ 42,946	\$ 157	\$ 157	\$ 2,454	\$ 7,183	\$ 7,183	\$ 3,624

VILLAGE OF TUSTIN, MICHIGAN

STATEMENT OF 2007 TAX ROLL  
FEBRUARY 29, 2008

TAXABLE VALUATION	<u>\$ 2,748,726</u>
MILLS	<u>10.0000</u>
Taxes Assessed	\$ 27,487
Taxes Collected	<u>22,694</u>
Taxes Returned Delinquent	<u>\$ 4,793</u>

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

April 30, 2008

To the Village Council  
Village of Tustin  
Tustin, Michigan

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Village of Tustin, Michigan as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Tustin's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

## 1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Village and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Council must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

## 2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies described above are material weaknesses.



This communication is intended solely for the information and use of the Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
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April 30, 2008

### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Village Council  
Village of Tustin  
Tustin, Michigan

We have audited the financial statements of the governmental activities and each major fund of the Village of Tustin for the year ended February 29, 2008 and have issued our report thereon dated April 30, 2008. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 30, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Tustin are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

##### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We did not identify any material misstatements.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 30, 2008.

### *Other Audit Findings or Issues*

During the course of our audit of the basic financial statements of the Village of Tustin for the year ended February 29, 2008, we noted the following list of items which we feel deserve comment:

#### Loan for Street Repairs

Michigan Statute requires that the Village receive approval from the Michigan Department of Treasury before funds are borrowed for the purposes of street repair or construction. We did not find any evidence that this approval was obtained prior to borrowing funds from Lake Osceola State Bank for street repairs. We recommend that the Village contact the Michigan Department of Treasury as soon as possible to obtain the necessary approvals.

This communication is intended solely for the information and use of the Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*